

CITY OF RICEVILLE
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2012

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	4-5
Management's Discussion and Analysis	6-13
Basic Financial Statements	<u>Exhibits</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets - Cash Basis	A 15
Governmental Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 16
Proprietary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 17
Notes to Financial Statements	18-26
Other Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	28
Notes to Other Information - Budgetary Reporting	29
Supplementary Information:	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements and Changes In Cash Balances - Nonmajor Governmental Funds	1 31
Schedule of Indebtedness	2 32
Debt Maturities	3 33
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	34-36
Schedule of Findings	37-40

CITY OF RICEVILLE

OFFICIALS

<u>Name</u>	<u>Title</u> (Before January 2012)	<u>Term Expires</u>
Dana Fister	Mayor	Jan 2012
Terry Byrnes	Mayor Pro tem	Jan 2014
Robert Foss	Council Member	Jan 2012
Mark Patrick	Council Member	Jan 2012
Michelle Richardson	Council Member	Jan 2012
Kenneth Ferguson	Council Member	Jan 2014
(After December 2011)		
Dean Eastman	Mayor	Jan 2016
Terry Byrnes	Mayor Pro Tem	Jan 2014
Kenneth Ferguson	Council Member	Jan 2014
Michelle Richardson	Council Member	Jan 2014
Robert Foss	Council Member	Jan 2016
Mark Patrick	Council Member	Jan 2016
Crystal Kobliska	City Clerk	Indefinite
Kathryn Levorson	Treasurer	Resigned May 14, 2012
Aaron Murphy	Attorney	Indefinite

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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Elkader, Iowa 52043

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Riceville, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Riceville's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2011.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by activity of the cash basis net assets and the distribution by fund of the cash balances at July 1, 2011 as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Riceville as of June 30, 2012, and the

respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.


In accordance with Government Auditing Standards, we have also issued our report dated October 4, 2012 on our consideration of the City of Riceville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Riceville's basic financial statements. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the cash balances at July 1, 2011, as it relates to Schedule 1, as discussed in the third paragraph, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Riceville's basic financial statements. The Management's Discussion and Analysis and budgetary comparison information on pages 6 through 13 and 28 through 29 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provided any assurance on it.

Elkader, Iowa

October 4, 2012


Dietz, Donald and Company
Certified Public Accountants
FEIN 42-1172392

City of Riceville

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Riceville provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Since the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data have been provided if available.

2012 FINANCIAL HIGHLIGHTS

The cash basis net assets of the City's governmental activities decreased \$ 142,435, due primarily to a payment to Howard County of \$ 174,172 for road work.

The cash basis net assets of the City's business activities increased \$ 47,793 due to increases in rates.

USING THIS REPORT

This report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how government services were financed in the short term, as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison to the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements, and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and operational results of funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government and debt service. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks and sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

Governmental Funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: (1) the General Fund, (2) the Special Revenue Funds, such as Road Use Tax and Employee Benefits, (3) the Debt Service Fund, and (4) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

Proprietary Funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased sharply from a year ago, decreasing from \$ 572,610 to \$ 430,175. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	Year Ended <u>June 30, 2012</u>
Receipts	
Program receipts:	
Charges for service	\$ 134,028
Operating grants and contributions	122,529
General receipts:	
Property tax	272,770
Local option sales tax	67,753
Unrestricted interest on investments	2,503
Other general receipts	<u>8,479</u>
Total receipts	<u>608,062</u>
Disbursements:	
Public safety	69,872
Public works	369,246
Health and social services	155
Culture and recreation	101,459
Community and economic development	19,335
General government	88,291
Debt service	<u>102,139</u>
Total disbursements	<u>750,497</u>
Change in cash basis net assets	(142,435)
Cash basis net assets beginning of year	<u>572,610</u>
Cash basis net assets end of year	<u>\$ 430,175</u>

The cash basis net assets of the City's governmental funds decreased primarily due to a payment to Howard County of \$ 174,172 for previously completed road construction.

The cost of all governmental activities this year was \$ 750,497. However, as shown in the Statement of Activities and Net Assets on page 15, the amount taxpayers ultimately financed for these activities was only \$ 493,940 because some of the cost was paid by those directly benefiting from the programs (\$134,028) or by other governments and

organizations that subsidized certain programs with grants and contributions (\$ 122,529). The City paid for the remaining "public benefit" portion of governmental activities with \$ 340,523 of taxes (some of which could only be used for certain programs) and other receipts and carryover balances.

Changes in Cash Basis Net Assets of Business Type Activities

	<u>Year Ended June 30, 2012</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 72,565
Sewer	<u>57,847</u>
Total receipts	<u>130,412</u>
Disbursements:	
Water	59,561
Sewer	<u>23,058</u>
Total disbursements	<u>82,619</u>
Change in cash basis net assets	47,793
Cash basis net assets beginning of year	<u>138,457</u>
Cash basis net assets end of year	<u>\$ 186,250</u>

Total business type activities cash basis net assets increased from a year ago, from \$ 138,457 to \$ 186,250. The overall increase is a result of an increase in utility rates, as utility receipts increased \$ 4,202 over fiscal year 2011.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Riceville completed the year, its governmental funds reported a combined fund balance of \$ 430,175, a decrease of \$ 142,435 from last year's total of \$ 572,610. The following are the major reasons for the changes in the fund balances of the major funds from the prior year.

The General Fund cash balance increased \$ 19,433 from the prior year to \$ 104,507.

The Special Revenue, Road Use Tax Fund had a deficit balance of \$ 106,476 at the end of the fiscal year, a decrease of \$ 185,119 from the previous year. This was due primarily to the contract payment to Howard County of \$ 174,172 for prior year road work.

The Special Revenue, Employee Benefits Fund had a deficit balance of \$ 2,704 at June 30, 2012 compared to a deficit of \$ 31,186 at June 30, 2011.

The Special Revenue, Local Option Sales Tax Fund had a balance of \$ 299,694 at June 30, 2012, taking in \$ 67,753 of sales tax receipts with no disbursements.

The Special Revenue, Special Assessment Fund had a year end balance of \$ 69,970 with \$ 7,505 of special assessments collected in 2012.

The Debt Service Fund ending balance was \$ 39,689, retiring \$ 74,254 of long-term debt and paying \$ 27,885 in interest and fees.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Water Fund cash balance increased \$ 13,004 to \$ 61,475, due to an increase in water rates.

The Enterprise, Sewer Fund cash balance increased \$ 35,789 to \$ 124,775 due to an increase in sewer rates.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 14, 2012 and resulted in an increase in disbursements of \$ 25,531. The City had sufficient cash balances on hand to absorb these additional costs.

The City's receipts were \$ 13,397 more than budgeted. This was primarily due to receiving non-government grants and donations of \$ 41,520.

The City's disbursements were \$ 92,651 less than budgeted. Actual disbursements for the public safety, general government and capital projects functions were \$ 31,488, \$ 8,267 and \$ 175,000, respectively, less than the amended budget.

The City exceeded the amounts budgeted in the public works, culture and recreation, debt service and business type activities functions for the year ended June 30, 2012, due to the Howard County payment being charged to public works rather than capital projects.

DEBT SERVICE

At June 30, 2012, the City had \$ 776,859 in bonds and other long-term debt outstanding compared to \$ 851,113 last year, as shown below.

	Outstanding Debt at Year End (Expressed in Thousands)	
	June 30, 2012	2011
General obligation notes	\$ 605	670
Lease-purchase agreement	172	181
Total	<u>\$ 777</u>	<u>851</u>

The constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$ 776,859 is significantly below its constitutional debt limit of approximately \$ 1.4 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Riceville's elected and appointed officials and citizens considered many factors when setting the fiscal year 2013 budget, tax rates and fees charged for various City activities. One of these factors is growth. Population between 2000 and 2010 declined 6.5%. Actual property valuation increased 4.5% between January 1, 2009 and January 1, 2010. Taxable retail sales increased 5.6% during the prior fiscal year.

These indicators were taken into account when adopting the budget for fiscal year 2013. Amounts available for appropriation in the operating budget are approximately \$ 692,000, a decrease of 25% from the fiscal year 2012 budget. Property tax rates were nearly identical for both 2012 and 2013, however property taxes are budgeted to increase \$ 8,800 because of increased valuations. The decrease in budgeted receipts is being lead by a decrease in budgeted bond receipts of \$ 225,000. There are no capital projects budgeted in fiscal 2013 as opposed to \$ 225,000 being budgeted in fiscal 2012.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$ 5,200 by the close of fiscal year 2013.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Crystal Kobliska, City Clerk; 123 West Main; Riceville, Iowa 50466-0256.

BASIC FINANCIAL STATEMENTS

Exhibit A

CITY OF RICEVILLE
STATEMENT OF ACTIVITIES AND NET ASSETS-CASH BASIS
As of and for the Year Ended June 30, 2012

	Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants and Contributions	Governmental Activities	Business Type Activities	Total
Functions/Programs:						
Governmental activities:						
Public safety	\$ 69,872	7,670	9,000	(53,202)	-	(53,202)
Public works	369,246	83,448	74,458	(211,340)	-	(211,340)
Health and social services	155	-	-	(155)	-	(155)
Culture and recreation	101,459	34,650	31,271	(35,538)	-	(35,538)
Community and economic development	19,335	5,740	7,700	(5,895)	-	(5,895)
General government	88,291	2,520	100	(85,671)	-	(85,671)
Debt service	102,139	-	-	(102,139)	-	(102,139)
Total governmental activities	750,497	134,028	122,529	(493,940)	-	(493,940)
Business type activities:						
Water	59,561	72,565	-	-	13,004	13,004
Sewer	23,058	57,847	-	-	34,789	34,789
Total business type activities	82,619	130,412	-	-	47,793	47,793
Total	\$ 833,116	264,440	122,529	(493,940)	47,793	(446,147)
General Receipts:						
Property and other city tax levied for:						
General purposes				246,147	-	246,147
Debt service				19,903	-	19,903
Tax increment financing				6,720	-	6,720
Local option sales tax				67,753	-	67,753
Unrestricted interest on investments				2,503	-	2,503
Miscellaneous				6,752	-	6,752
Sale of assets				1,727	-	1,727
Total general receipts				351,505	-	351,505
Change in cash basis net assets				(142,435)	47,793	(94,642)
Cash basis net assets beginning of year				572,610	138,457	711,067
Cash basis net assets end of year				\$ 430,175	186,250	616,425
Cash Basis Net Assets:						
Restricted:						
Nonexpendable:				\$ 25,085	-	25,085
Subdivision escrow				-	3,370	3,370
Water security deposits						
Expendable:				192,948	-	192,948
Streets				680	-	680
Urban renewal purposes				109,659	-	109,659
Debt service				101,803	182,880	284,683
Unrestricted				\$ 430,175	186,250	616,425
Total cash basis net assets						

See notes to financial statements.

Exhibit B

CITY OF RICEVILLE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2012

	Special Revenue							Total
	General	Road Use Tax	Employee Benefits	Local Option Sales Tax	Special Assessment	Debt Service	Nonmajor	
Receipts:								
Property tax	\$ 153,197	-	89,938	-	-	19,903	-	263,038
Tax increment financing	-	-	-	-	-	-	6,720	6,720
Other city tax	3,012	-	-	67,753	-	-	-	70,765
Licenses and permits	2,470	-	-	-	-	-	-	2,470
Use of money and property	8,337	-	-	-	-	-	67	8,404
Intergovernmental	30,005	74,458	-	-	-	-	-	104,463
Charges for service	81,187	-	-	-	-	-	-	81,187
Special assessments	-	-	-	-	7,505	-	-	7,505
Miscellaneous	61,605	178	-	-	-	-	-	61,783
Total receipts	339,813	74,636	89,938	67,753	7,505	19,903	6,787	606,335
Disbursements:								
Operating:								
Public safety	65,822	-	4,050	-	-	-	-	69,872
Public works	70,540	260,856	37,850	-	-	-	-	369,246
Health and social services	155	-	-	-	-	-	-	155
Culture and recreation	101,459	-	-	-	-	-	-	101,459
Community and economic development	14,295	-	-	-	-	-	5,040	19,335
General government	68,735	-	19,556	-	-	-	-	88,291
Debt service	-	-	-	-	-	102,139	-	102,139
Total disbursements	321,006	260,856	61,456	-	-	102,139	5,040	750,497
Excess (deficiency) of receipts over (under) disbursements	18,807	(186,220)	28,482	67,753	7,505	(82,236)	1,747	(144,162)
Other financing sources:								
Sale of capital assets	626	1,101	-	-	-	-	-	1,727
Net change in cash balances	19,433	(185,119)	28,482	67,753	7,505	(82,236)	1,747	(142,435)
Cash balances beginning of year	85,074	78,373	(31,186)	231,941	62,465	121,925	24,018	572,610
Cash balances end of year	\$ 104,507	(106,746)	(2,704)	299,694	69,970	39,689	25,765	430,175
Cash Basis Fund Balances:								
Nonspendable	\$ -	-	-	-	-	-	25,085	25,085
Restricted	-	-	-	299,694	69,970	39,689	680	410,033
Committed	15,460	-	-	-	-	-	-	15,460
Assigned	54,427	-	-	-	-	-	-	54,427
Unassigned	34,620	(106,746)	(2,704)	-	-	-	-	(74,830)
Total cash basis fund balances	\$ 104,507	(106,746)	(2,704)	299,694	69,970	39,689	25,765	430,175

See notes to financial statements.

CITY OF RICEVILLE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
As of and for the Year Ended June 30, 2012

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 72,565	57,847	130,412
Operating disbursements:			
Business type activities	59,301	23,058	82,359
Excess of operating receipts over operating disbursements	13,264	34,789	48,053
Non-operating receipts (disbursements):			
Water security deposits, net	(260)	-	(260)
Excess of receipts over disbursements	13,004	34,789	47,793
Cash balances beginning of year	48,471	89,986	138,457
Cash balances end of year	<u>\$ 61,475</u>	<u>124,775</u>	<u>186,250</u>
Cash Basis Fund Balances:			
Restricted-nonexpendable:			
Water security deposits	\$ 3,370	-	3,370
Unrestricted	58,105	124,775	182,880
Total cash basis fund balances	<u>\$ 61,475</u>	<u>124,775</u>	<u>186,250</u>

See notes to financial statements.

CITY OF RICEVILLE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

(1) Summary of Significant Accounting Policies

The City of Riceville is a political subdivision of the State of Iowa located in Howard and Mitchell Counties. It was first incorporated in 1892 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer services for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Riceville has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and [1] the ability of the City to impose its will on that organization or [2] the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Howard County Assessor's Conference Board, Mitchell County Assessor's Conference Board, City Assessor's Conference Board, Howard County Emergency Management Commission, Mitchell County Emergency Management Commission, Floyd-Mitchell-Chickasaw Solid Waste Agency, Howard County Joint E911 Service Board and Mitchell County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1] charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2] grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this

fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Employee Benefits Fund is utilized to account for property taxes levied for employee benefits.

The Local Option Sales Tax Fund is used to account for the local option sales tax collected by the State of Iowa for the City.

The Special Assessment Fund is used to account for special assessments collected by the City for various assessments against property owners.

The Debt Service fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Riceville maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statement, cash basis fund balances are classified as follows:

Nonexpendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling state legislation.

Committed - Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the City Council through resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same action it employed to commit those amounts.

Assigned - Amounts the City Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the public works, culture and recreation, debt service and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board No. 3.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Long-Term Debt

Annual debt service requirements to maturity for general obligation notes and lease purchase agreement are as follows:

<u>June 30,</u>	<u>General Obligation</u>		<u>Lease-Purchase</u>		<u>Total</u>	
	<u>Bonds</u>		<u>Agreement</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 70,000	14,242	9,676	10,324	79,676	24,566
2014	70,000	13,438	10,266	9,734	80,266	23,172
2015	65,000	12,212	10,892	9,108	75,892	21,320
2016	70,000	11,075	11,557	8,443	81,557	19,518
2017	75,000	9,430	12,262	7,738	87,262	17,168
2018-22	255,000	17,261	73,484	26,516	328,484	43,777
2023-24	0	0	46,047	3,953	46,047	3,953
Total	<u>\$ 605,000</u>	<u>77,658</u>	<u>174,184</u>	<u>75,816</u>	<u>779,184</u>	<u>153,474</u>

General Obligation Bonds

The City reserves the right to prepay part or all of the bonds maturing in years 2018 through 2021, prior to and in any order of maturity on June 1, 2017, or on any date thereafter upon terms of par and accrued interest.

It is anticipated that a portion of the debt service on the bonds will be abated by urban renewal tax increment receipts and special assessment collections.

Lease-Purchase Agreement

The lease purchase agreement is being amortized at an annual rate of 6%, compounded semi-annually. The City has the right to purchase the emergency services building at the end of the lease term, April 24, 2024, for a \$ 20,000 balloon payment. The City will carry the liability insurance on the property.

(4) Fund Balances

The fund balance detail is as follows:

	<u>Special Revenue</u>			
	<u>General</u>	<u>Road Use Tax</u>	<u>Employee Benefits</u>	<u>Local Option Sales Tax</u>
Nonspendable:				
Subdivision escrow	\$ 0	0	0	0
Restricted for:				
Urban renewal purposes	0	0	0	0
Debt service	0	0	0	0
Streets	0	0	0	299,694
	0	0	0	299,694
Committed for:				
Library	15,460	0	0	0
Assigned for:				
Police car	25,500	0	0	0
Fire department	9,000	0	0	0
Library building	3,000	0	0	0
Garbage truck	13,427	0	0	0
Sewer	3,500	0	0	0
	54,427	0	0	0
Unassigned	34,620	(106,746)	(2,704)	0
Total cash basis fund Balances	\$ 104,507	(106,746)	(2,704)	299,694

	<u>Special Revenue</u>	<u>Debt</u>		
	<u>Special Assessment</u>	<u>Service</u>	<u>Nonmajor</u>	<u>Total</u>
Nonspendable:				
Subdivision escrow	0	0	25,085	25,085
Restricted for:				
Urban Renewal Purposes	0	0	680	680
Debt service	69,970	39,689	0	109,659
Street	0	0	0	299,694
	<u>69,970</u>	<u>39,689</u>	<u>680</u>	<u>410,033</u>
Committed for:				
Library	0	0	0	15,460
Assigned for:				
Police car	0	0	0	25,500
Fire department	0	0	0	9,000
Library building	0	0	0	3,000
Garbage truck	0	0	0	13,427
Sewer	0	0	0	3,500
	<u>0</u>	<u>0</u>	<u>0</u>	<u>54,427</u>
Unassigned	0	0	0	(74,830)
 Total cash basis fund				
Balances	<u>69,970</u>	<u>39,689</u>	<u>25,765</u>	<u>430,175</u>

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan member and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS; P.O. Box 9117; Des Moines, Iowa 50306-9117

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2012 was \$ 12,411, equal to the required contribution for the year.

(6) Other Postemployment Benefits (OPEB)

The City implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions during

the year ended June 30, 2012.

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 3 active members in the plan. Participants must be age 55 or older at retirement.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$ 1,092 for family coverage. For the year ended June 30, 2012, the City contributed \$ 38,216 to the plan and plan members eligible for benefits contributed \$ 0 to the plan.

(7) Compensated Absences

The City's approximate liability for compensatory time termination payments payable to employees at June 30, 2012, primarily related to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Compensatory	<u>\$ 1,628</u>

This liability has been computed based on rates of pay in effect at June 30, 2012.

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in the past fiscal year.

(9) Development Agreements

The City has entered into two development agreements to assist various urban renewal projects.

With the first agreement, the City has agreed to rebate 75% of the incremental tax paid by the developer in exchange for constructing, operating and maintaining a commercial hardware store. The incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the Developer will be rebated for a period of ten years, beginning December 1, 2011. The total to be paid by the City

shall not exceed \$ 65,000. The payments shall not constitute a general obligation of the City and shall be subject to annual appropriation by the Council. During the year ended June 30, 2012, rebates of \$ 2,993 were made under this agreement. The maximum remaining balance at June 30, 2012 was \$ 62,007.

With the second agreement, the City has agreed to rebate 75% of the incremental tax paid by the developer in exchange for constructing, operating and maintaining a commercial meat locker/facility/store. The incremental tax to be received from the City under Chapter 403.19 of the Code of Iowa from the Developer will be rebated for a period of ten years beginning December 1, 2011. The total to be paid by the City shall not exceed \$ 60,000. The payments shall not constitute a general obligation of the City and shall be subject to annual appropriation by the Council. During the year ended June 30, 2012, rebates of \$ 2,047 were made under this agreement. The maximum remaining balance at June 30, 2012 was \$ 57,953.

(10) Deficit Balances

At June 30, 2012, the Special Revenue, Road Use Tax Fund and the Special Revenue, Employee Benefits Fund had deficit balances of \$ 106,746 and \$ 2,704, respectively. The deficit balance in the Special Revenue, Road Use Tax Fund was eliminated with a fund transfer in August, 2012 (see Note 11). The Special Revenue, Employee Benefits Fund deficit will be eliminated upon receipt of fiscal year 2013 property taxes.

(11) Subsequent Events

In August, 2012, the City made the following fund transfers:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue:		
Road Use Tax	Debt Service	<u>\$ 174,172</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	104,202
	Special Assessment	<u>69,970</u>
		<u>174,172</u>
Total		<u><u>\$ 348,344</u></u>

OTHER INFORMATION

CITY OF RICEVILLE
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES-
BUDGET AND ACTUAL (CASH BASIS)-ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
OTHER INFORMATION
Year Ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 263,038	-	263,038	258,687	258,687	4,351
Tax increment financing	6,720	-	6,720	-	-	6,720
Other city tax	70,765	-	70,765	64,533	64,533	6,232
Licenses and permits	2,470	-	2,470	2,000	2,875	(405)
Use of money and property	8,404	-	8,404	23,875	20,875	(12,471)
Intergovernmental	104,463	-	104,463	106,143	127,843	(23,380)
Charges for service	81,187	130,412	211,599	205,000	202,155	9,444
Special assessments	7,505	-	7,505	15,782	15,782	(8,277)
Miscellaneous	61,783	-	61,783	12,000	30,600	31,183
Total receipts	606,335	130,412	736,747	688,020	723,350	13,397
Disbursements:						
Public safety	69,872	-	69,872	102,250	101,360	31,488
Public works	369,246	-	369,246	242,222	245,522	(123,724)
Health and social services	155	-	155	250	250	95
Culture and recreation	101,459	-	101,459	75,038	99,888	(1,571)
Community and economic development	19,335	-	19,335	13,575	25,575	6,240
General government	88,291	-	88,291	92,258	96,558	8,267
Debt service	102,139	-	102,139	79,743	101,364	(775)
Capital projects	-	-	-	225,000	175,000	175,000
Business type activities	-	82,619	82,619	69,900	80,250	(2,369)
Total disbursements	750,497	82,619	833,116	900,236	925,767	92,651
Excess (deficiency) of receipts over (under) disbursements	(144,162)	47,793	(96,369)	(212,216)	(202,417)	106,048
Other financing sources, net	1,727	-	1,727	225,000	-	1,727
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(142,435)	47,793	(94,642)	12,784	(202,417)	107,775
Balances beginning of year	572,610	138,457	711,067	520,324	686,091	24,976
Balances end of year	\$ 430,175	186,250	616,425	533,108	483,674	132,751

See independent auditor's report and notes to other information-budgetary reporting.

CITY OF RICEVILLE

Notes to Other Information - Budgetary Reporting

June 30, 2012

The budgetary comparison is presented as Other Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. The nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2012, one budget amendment increased budgeted disbursements by \$ 25,331. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public works, culture and recreation, debt service and business type activities functions.

SUPPLEMENTARY INFORMATION

CITY OF RICEVILLE
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 As of and for the Year Ended June 30, 2012

	<u>Special Revenue</u>	<u>Permanent</u>	
	Urban Renewal Tax Increment	Subdivision Escrow	Total
Receipts:			
Tax increment financing	\$ 6,720	-	6,720
Use of money and property	-	67	67
Total receipts	6,720	67	6,787
Disbursements:			
Operating:			
Community and economic development	5,040	-	5,040
Excess of receipts over disbursements	1,680	67	1,747
Balance beginning of year	(1,000)	25,018	24,018
Balance end of year	\$ 680	25,085	25,765
Cash Basis Fund Balances			
Nonspendable-Subdivision escrow	\$ -	25,085	25,085
Restricted for Urban renewal purposes	680	-	680
Total cash basis fund balances	\$ 680	25,085	25,765

See accompanying independent auditor's report.

Schedule 2

CITY OF RICEVILLE
SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation bonds:								
Street improvement and refunding	Apr 28, 2011	1.15-3.25%	\$ 670,000	670,000	-	65,000	605,000	16,364
Lease-purchase agreement:								
Fire station	Aug 27, 2008	6.00%	\$ 220,000	181,113	-	9,254	171,859	10,746

See accompanying independent auditor's report.

CITY OF RICEVILLE
DEBT MATURITIES
June 30, 2012

Year Ending June 30,	<u>General Obligation Bonds</u>		<u>Lease-Purchase Agreement</u>	
	<u>Street Improvement and Refunding</u>		<u>Fire Station</u>	
	<u>Issued Apr 28, 2011</u>		<u>Issued Aug 27, 2008</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2013	1.15%	\$ 70,000	6.00%	\$ 9,818
2014	1.75	70,000	6.00	10,417
2015	1.75	65,000	6.00	11,053
2016	2.35	70,000	6.00	11,727
2017	2.35	75,000	6.00	12,442
2018	2.85	75,000	6.00	13,201
2019	2.85	80,000	6.00	14,006
2020	3.25	75,000	6.00	14,860
2021	3.25	25,000	6.00	15,766
2022		-	6.00	16,728
2023		-	6.00	17,748
2024		-	6.00	24,093
Total		<u>\$ 605,000</u>		<u>\$ 171,859</u>

See accompanying independent auditor's report.

STEVEN S. CLAUSEN, CPA

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Riceville, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated October 4, 2012. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2011. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the City of Riceville is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Riceville's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Riceville's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Riceville's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material

weaknesses and another deficiency we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that at material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings identified as items I-A-12 and I-B-12 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-C-12 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Riceville's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Riceville's responses to findings in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Riceville's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the

officials, employees and citizens of the City of Riceville and other parties to whom the City of Riceville may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Riceville during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

October 4, 2012



Dietz, Donald & Company
Certified Public Accountants
FEIN 42-1172392

CITY OF RICEVILLE
SCHEDULE OF FINDINGS
Year Ended June 30, 2012

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES

- I-A-12 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- I-B-12 Financial Reporting - As is common in small organizations, the City does not prepare its financial statements, complete with notes, in accordance with U.S. generally accepted accounting principles. Accordingly, the City is unable to, and has not established internal controls over the preparation of financial statements.

Recommendation - As part of the audit, we have been requested to prepare a draft of the City's financial statements, including related notes to the financial statements. The City then performs a review of the financial statements. However, in order to provide improved oversight of the financial preparation services and implement controls over the financial reporting process, the City should establish review policies and procedures including the performances of some or all of the following functions:

Review the adequacy of financial statement disclosures.

Review and approve schedule and calculations supporting amounts included in the notes to the financial statements.

CITY OF RICEVILLE
SCHEDULE OF FINDINGS
Year Ended June 30, 2012

Apply analytical procedures to the draft financial statements.

Apply other procedures as considered necessary by the City.

Response - We will consider this, however, the City usually prepares a complete set of financial statements once every four years.

Conclusion - Response acknowledged.

- I-C-12 Posting of Financial Transactions - Accumulated interest receipts of \$ 2,794 at June 30, 2012, which were added directly to the City's certificate of deposit, were not posted to the City's general ledger by year end.

Recommendation - Certificate balances should be verified and interest income posted to the City records before closing the books for the fiscal year.

Response - In the future this will be done.

Conclusion - Response accepted.

INSTANCES OF NONCOMPLIANCE

No matters were noted.

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-12 Certified Budget - Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the public works, culture and recreation, debt service, and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed budget.

Response - The budget will be amended properly in the future.

CITY OF RICEVILLE
SCHEDULE OF FINDINGS
Year Ended June 30, 2012

Conclusion - Response accepted.

- II-B-12 Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- II-C-12 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-12 Business Transactions - No business transactions between the City and City officials were noted.
- II-E-12 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- II-F-12 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-12 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12 C of the Code of Iowa and the City's investment policy were noted.
- II-H-12 Financial Condition - At June 30, 2102, the Special Revenue, Road Use Tax Fund and the Special Revenue, Employee Benefits Fund had deficit balances of \$ 106,746 and \$ 2,704, respectively.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these funds to sound financial position.

Response - The deficit balance in the Special Revenue, Road Use Tax Fund was eliminated with transfers from the Special Revenue, Local Option Sales Tax Fund and the Special Revenue, Special Assessment Fund. The deficit balance in the Special Revenue, Employee Benefits Fund will be eliminated with future property tax receipts.

Conclusion - Response accepted.

CITY OF RICEVILLE
SCHEDULE OF FINDINGS
Year Ended June 30, 2012

II-I-12 Solid Waste Receipts and Disbursements - The City currently records solid waste receipts and disbursements in the General Fund. As the City provides its own solid waste collection and does not subcontract with a private hauler to provide these services, this activity would appear to meet the criteria of both GASB Statement No. 34 paragraph 67, and Chapter 384.24(2)(f) to be required to be accounted for in an enterprise fund.

Recommendation - The City should establish an Enterprise, Solid Waste Fund by transferring the General Fund Assigned Balance for Garbage Truck of \$ 13,427 to the new fund and record all solid waste collection activity in this new fund.

Response - We will consider this.

Conclusion - Response acknowledged.